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St. Cloud Area Quarterly Business Report

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Q ST. CLOUD AREA QUARTERLY BUSINESS REPORT

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UNEXCEPTIONAL GROWTH CONTINUES

Area's employment gains still lag behind pace of the Twin Cities

EXECUTIVE SUMMARY

Area economic conditions were largely unchanged from last quarter, according to the most recent reading of the St. Cloud Index of Leading Economic Indicators as well as results from the St. Cloud Area Business Outlook Survey.

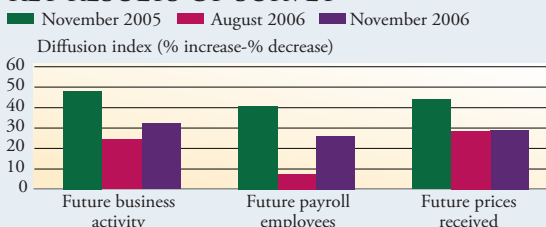
After leveling out last quarter, the leading indicators index has turned down slightly in the current period. Increases in unemployment insurance claims in recent months have combined with weakness in help-wanted advertising at the St. Cloud Times to produce a weaker local labor market than is normally expected at this time of year.

Employment continued to grow at a modest 0.6 percent pace over the year ending in October, lagging well behind Twin Cities employment growth of 2 percent over the same period.

Last quarter's weakness in the local construction and transportation, warehouse and utilities sectors persists. These sectors experienced employment declines in the past year. A 1.3 percent decline in manufacturing employment in the past 12 months is also worth watching.

The area economy continues to be driven by

KEY RESULTS OF SURVEY



growth in financial activities and professional and business services sectors. These two sectors now account for 12.2 percent of area jobs — a substantial increase from 15 years ago when they accounted for only 7.6 percent of area employment. Health and education employment grew slower in the past year than elsewhere in the state.

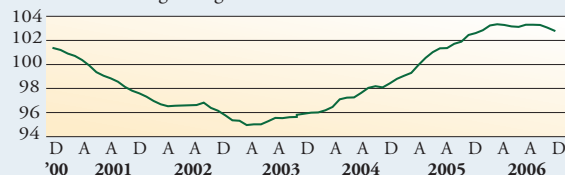
Responses by 96 business leaders who returned this quarter's business outlook survey suggest a fairly normal seasonal pattern of economic activity. The area economy probably grew less rapidly than it did last quarter, but this is to be expected.

Surveyed employment conditions were about the same as last quarter, although they were somewhat weaker than one year ago. Almost 16 percent of surveyed firms reported a decrease in employment from last quarter. That is markedly higher than one year ago when only 9 percent of firms experienced reductions in payrolls.

Price pressures appear to have moderated for the time being. Twenty-one percent of firms report increases in prices received, but this is largely offset by 15 percent of firms that have seen a reduction in prices received.

INDEX OF LEADING ECONOMIC INDICATORS

Six-month moving average



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Fewer firms also are finding it more difficult to attract qualified workers.

The outlook for the next six months is improved from the August survey, although some local indicators are weaker than expected for this time of year.

The index on expected future business activity is the lowest fall reading since 2002. And the employment outlook — while improved from three months ago — is the lowest we have seen in the fall survey since 2003. That was when the area economy had finally pulled out of a two-year recession.

While 34 percent of area firms expect prices received to increase in the next six months, this is much lower than one year ago, when 46 percent of surveyed firms expected price increases.

In special questions, 69 percent of surveyed firms are in favor of the proposed initiative to include the St. Cloud area as a bioscience zone. No area businesses that responded to the survey said they were opposed to this initiative. About 31 percent of firms either said they did not favor or oppose the initiative or did

About the diffusion index

The diffusion index represents the percentage of survey respondents who indicated an increase minus the percentage indicating a decrease.

not respond. Thirty-seven percent of the firms think the bioscience zone application should be targeted primarily to biomedical and agricultural manufacturing, while 23 percent think the application should be targeted more broadly.

Three-fourths of area firms spend less than one-quarter of their business and professional services budget on services provided by other firms. Of those firms that outsource some of their professional services, almost two-thirds report the greatest source of these services is local companies.

AN UNEVEN PACE

Tables 1 and 2 report the most recent results of the business outlook survey. Responses are from 96 area businesses that returned the recent mailing in time

to be included in the report. Participating firms are representative of the diverse collection of businesses in the St. Cloud area. They include retail, manufacturing, construction, financial, health services and government enterprises of sizes ranging from small to large.

Responses are confidential. Written and oral comments have not been attributed to individual firms.

Forty-six percent of surveyed firms report an increase in business activity over the previous quarter while 26 percent say activity decreased. This captures the uneven state of affairs across local sectors. While business is booming for many area firms, particularly those in professional and business service, there are pockets of weakness. Everyone knows the housing sector is weak, but the transportation and manufacturing sectors are also lagging.

Employment conditions are also uneven. The diffusion index of 14.6 on the second item in Table 1 is an improvement from last quarter, but it is somewhat lower than what was reported in

**TABLE 1-CURRENT
BUSINESS CONDITIONS**

	November 2006 vs. Three months ago			August 2006	
	Decrease (%)	No Change (%)	Increase (%)	Diffusion Index ³	Diffusion Index ³
What is your evaluation of:					
Level of business activity for your company	28.1	26.0	45.8	17.7	30.5
Number of employees on your company's payroll	15.6	54.2	30.2	14.6	12.7
Length of the workweek for your employees	13.5	74.0	11.5	-2.0	8.4
Capital expenditures (equipment, machinery, structures, etc.) by your company	11.5	51.0	35.4	23.9	16.9
Employee compensation (wages and benefits) by your company	0	65.6	32.3	32.3	35.7
Prices received for your company's products	14.6	62.5	20.8	6.2	22.1
National business activity	13.5	54.2	19.8	6.3	7.4
Your company's difficulty attracting qualified workers	9.4	70.8	18.8	9.4	21.0

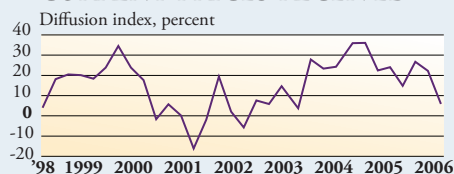
Notes: (1) Reported numbers are percentages of businesses surveyed. (2) Rows may not sum to 100 because of "not applicable" and omitted responses. (3) Diffusion indexes represent the percentage of respondents indicating an increase minus the percentage indicating a decrease. A positive diffusion index is generally consistent with economic expansion.

Source: SCSU Center for Economic Education, Social Science Research Institute and Department of Economics

the fall 2005 survey.

Capital expenditures rebounded a bit last quarter. It is always tough to determine the factors that most influence companies' decisions to invest in new capital, but interest rates and economic uncertainty are always on everyone's list of factors that affect capital spending. It now appears that inflationary pressures are moderating and Federal Reserve monetary policy has turned neutral. With the election behind us, it may well be that a portion of uncertainty has been eliminated and we are poised to see a pickup in capital spending by local firms.

CURRENT PRICES RECEIVED



Perhaps the most interesting finding of this quarter's survey is the index on current prices received from Table 1. Pressure on prices has moderated substantially in

the past three months. Almost as many firms report decreases in prices received as indicate increased prices. Reductions in fuel costs and clear successes by Fed policymakers in containing inflationary expectations are no doubt being felt at the local level.

Surveyed firms also report continued flatness of the national economy. At a value of 6.3, the diffusion index on this item is similar to that which was reported three months ago — and is among the lowest recordings on this item in recent years. It appears that the national economy will likely experience subdued growth in the next several months.

LOCAL OUTLOOK ON CURRENT NATIONAL BUSINESS ACTIVITY



Companies also report measurably less difficulty attracting qualified workers in the past three months. The diffusion

WHAT IS AFFECTING YOUR COMPANY?

■ "The negative doom and gloom the press portrays on the building industry. Interest rates are still very good."

■ "Prices of refined fuels on global market (are affecting our business)."

■ "We are in a strong growth curve and will be for 2-4 years."

■ "High prices for corn and soybean meal due to demand for ethanol (are affecting us). It is an extreme hardship in livestock and poultry industry."

■ "When we have to compete with companies who receive tax dollars ... or companies receiving special favors such as tax free zones and low interest loans."

■ "A significant slowdown in construction — especially residential — and we are preparing for a slow winter season."

■ "We are currently expanding our facility. This will allow us to sell more product and expand our need for staff — an approximate 20 percent increase."

■ "Residential home sales are way down; refinance transactions have virtually dried up. Commercial construction projects and commercial real estate sales seem to be holding their own. We will do OK for this year without layoffs or reduced work hours. However, we do not know where next year will lead us."

TABLE 2-FUTURE BUSINESS CONDITIONS

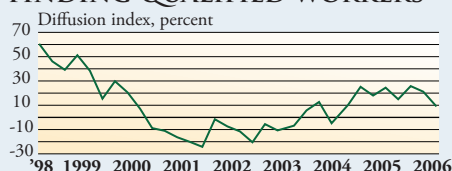
	Six months from now vs. November 2006			August 2006	
	Decrease (%)	No Change (%)	Increase (%)	Diffusion Index ³	Diffusion Index ³
What is your evaluation of:					
Level of business activity for your company	15.6	33.3	47.9	32.3	24.3
Number of employees on your company's payroll	8.3	55.2	34.4	26.1	7.4
Length of the workweek for your employees	9.4	74.0	12.5	3.1	-4.2
Capital expenditures (equipment, machinery, structures, etc.) by your company	8.3	45.8	40.6	32.3	26.3
Employee compensation (wages and benefits) by your company	0	45.8	50.0	50.0	45.3
Prices received for your company's products	5.2	55.2	34.4	29.2	28.4
National business activity	8.3	42.7	34.4	26.1	12.7
Your company's difficulty attracting qualified workers	3.1	71.9	20.8	17.7	21.0

Notes: (1) Reported numbers are percentages of businesses surveyed. (2) Rows may not sum to 100 because of "not applicable" and omitted responses. (3) Diffusion indexes represent the percentage of respondents indicating an increase minus the percentage indicating a decrease. A positive diffusion index is generally consistent with economic expansion.

Source: SCSU Center for Economic Education, Social Science Research Institute and Department of Economics

index on this item declined substantially from its previous reading as seen in the chart. While area firms may feel pleased it is less difficult to find qualified workers, this could nevertheless be a sign of weaker local labor market conditions. The value of this index has closely tracked the overall performance of the area economy, so this will be an item to keep an eye on.

CURRENT DIFFICULTY FINDING QUALIFIED WORKERS



DEJA VU: UNCERTAIN FUTURE

Forty-eight percent of surveyed firms expect business activity to increase by April, while 16 percent expect a decline in the same period. The diffusion index on this item (32.3) is higher than its value in August, but it is the lowest fall reading since 2002, when we were in the midst of an economic contraction.

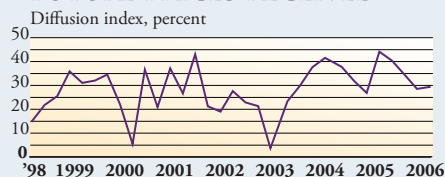
It is unclear to what this unseasonably weak expected future outlook should be attributed, although the comments of business leaders are most instructive. Businesses appear to be very concerned about the housing industry, although this sector is not large enough to drag the entire local economy down. We suspect that uncertainty will be less of a restraint on businesses in the next several months. The election is over. Fuel prices have stabilized. Fed Chairman Ben Bernanke has demonstrated his inflation-fighting credentials. We expect this index to improve in upcoming surveys.

The index on expected future employees improved from three months ago. More than one-third of surveyed firms expect to hire more workers by April. This is a normal seasonal effect, but a rebound from last quarter's all-time low index on future employment.

It also looks like area firms expect fairly healthy activity for the national economy

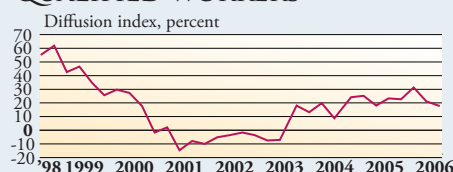
in the next six months and planned capital expenditures remain fairly strong at surveyed firms, so there are brighter signs to be found in Table 2.

FUTURE PRICES RECEIVED



While current prices received seem to have moderated, many area firms still anticipate an increase in prices received in the next six months. Thirty-four percent of firms expect prices to rise while only 5 percent expect prices to fall. As seen in the chart, the diffusion index on this item is similar to the value reported three months ago, although it is substantially lower than its value in the fall 2005 survey. At that time, inflationary pressures were more of an overall concern.

FUTURE DIFFICULTY FINDING QUALIFIED WORKERS



The index on firms' expected difficulty attracting qualified workers slid again last quarter. This series has been an important indicator of local economic performance in the past several years, so it will be closely watched in the next few months.

AREA AS BIOSCIENCE ZONE

St. Cloud City Council members recently approved an application for St. Cloud to join surrounding cities in efforts to include the St. Cloud area in the state's bioscience zone reduced tax program. If approved, the area would join Rochester and the Twin Cities in this program.

To date, St. Cloud's efforts have been to target biomedical and agricultural manufacturing industries. This appears to be an

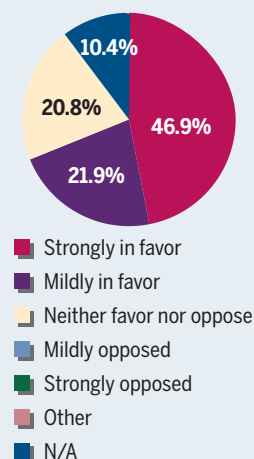
attempt to capitalize on the relative strength of the local manufacturing sector.

Surveyed firms responded to the extent to which they are in favor or opposed to the bioscience initiative, and if the application should be targeted to these two key industries. Survey results were interesting.

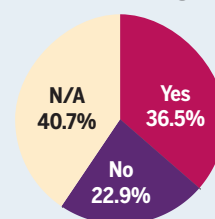
No firms are opposed to the efforts to include our area as a bioscience zone. This unanimity is unprecedented in our eight years of conducting the survey and is a clear sign of support to area business and political leaders to continue efforts to have St. Cloud designated as a bioscience zone. Almost one-half of surveyed firms are strongly in favor of this initiative.

Less clear is whether an approved program should be targeted specifically to the biomedical and agricultural manufacturing industries. Forty-one percent of surveyed firms did not answer the item relating to the targeting of the application to these key industries. Thirty-seven percent support targeting the industries, but 23 percent are opposed. A discussion about targeted industries would be worthwhile.

To what extent does your business support efforts to include the St. Cloud area as a bioscience zone?



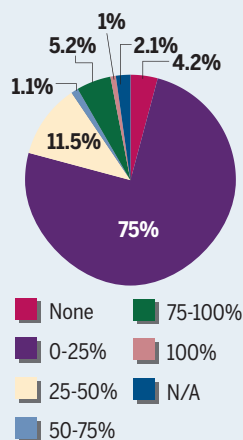
Should the St. Cloud area's bioscience zone application be targeted primarily to biomedical and agricultural manufacturing?



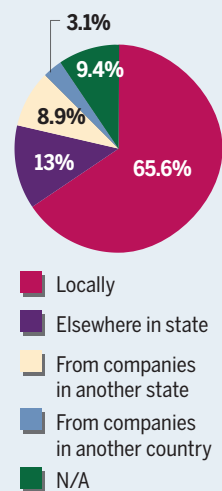
OUTSOURCING SERVICES

A recent driver of area employment growth has been the professional- and business-services sector. This sector

What percent of your company's expenditures on professional and business services are on services acquired from other firms?



If you outsource some or all of these services, which of the following is the greatest source from which you acquire these services?



outsourcing done internationally.

CURRENT ECONOMIC DATA

Nonfarm payrolls in the St. Cloud area topped 100,000 workers for the first time in history in October. While that is something we might wish to celebrate, it has certainly been a long time coming.

We have been just below this figure since the fourth quarter last year but

includes legal services, accounting, consulting, administrative support, engineering and many other skilled services.

Firms responded about the extent to which their spending on this budget category is on services provided by outside firms.

It turns out most area firms provide most of their professional and business services in-house.

Three-fourths of area firms report they spend no more than 25 percent of their professional- and business-services budgets on services offered by other firms.

The majority of the companies that outsource a portion of these services use local suppliers. About two-thirds of respondents indicate the greatest source of business and professional services is local firms. There is little

A BETTER LOOK AT LAST YEAR

In the past few months, more data were released on production of Minnesota's economy. Minnesota's gross state product grew an inflation-adjusted 1.9 percent in 2005.

The most striking part of the data is that the contributions to growth came in a few areas. The information, finance, insurance, real estate and professional and technical services areas contributed 1.35 percent of Minnesota's GSP growth. Health services contributed an additional 0.3 percent. Manufacturing rebounded in 2005, adding 0.45 percent to growth.

This smaller regional share of growing industries shows in the data on personal income in St. Cloud released by the Bureau of Economic Analysis in October. Personal income in the St. Cloud area in 2005 was \$5.312 billion, up 3 percent from 2004. Area per capita income was \$29,323, a 1.9 percent increase in nominal terms. We do not know local inflation rates, but it would be reasonable to conclude St. Cloud-area real incomes did not grow in 2005.

GROSS STATE PRODUCT

In Minnesota in 2005	Amount (In millions)	Change from 2004
Goods-producing sector		
Agriculture, forestry, fishing and hunting	3,422	0.02%
Construction	11,104	-0.23%
Durable goods manufacturing	20,820	0.41%
Mining	896	-0.02%
Nondurable goods manufacturing	11,216	0.04%
Utilities	3,183	-0.02%
Service-producing sector		
Wholesale trade	16,104	0.08%
Retail trade	14,398	-0.06%
Transportation and warehousing	7,412	0.10%
Information	8,693	0.27%
Finance and insurance	23,812	0.49%
Real estate, rental and leasing	28,956	0.33%
Professional and technical services	13,677	0.26%
Management of companies	8,157	-0.25%
Administrative and waste services	5,493	0.10%
Educational services	1,872	0.01%
Health care and social assistance	18,802	0.30%
Arts, entertainment and recreation	1,820	-0.03%
Accommodation and food services	5,156	0.06%
Other services	5,608	0.03%
Government	23,951	0.04%
Total	234,552	1.93%

This was offset by declines in construction, mostly in residential. The most recent Beige Book report of regional activity from the Minneapolis Federal Reserve indicates commercial construction activity increased in the third quarter.

Wholesale and retail trade contributed little in 2005, and employment data would indicate this continued in 2006.

The St. Cloud area is relatively under-represented in the share of state employment in the financial activities, information and professional and business services area when compared with the Twin Cities, as shown in Table 3. Growth in the St. Cloud economy mostly came from health and manufacturing.

2005 PERSONAL INCOME

	Income (millions)	Growth 2004-05	Per capita income	National rank
Duluth-Superior	8,356	2.9	30,342	175
Fargo-Moorhead	6,135	5.7	33,190	109
Twin Cities	132,258	3.8	42,083	14
Rochester	6,583	2.8	37,198	42
St. Cloud	5,312	3.0	29,323	199
Minnesota	191,568	3.8	37,322	

Note: National rank is for 361 metropolitan areas nationwide.

Per capita incomes grew more in many other areas of the state in 2005. Duluth-Superior per capita incomes rose 3 percent. Fargo-Moorhead increased 4.5 percent. The Twin Cities grew 2.9 percent.

Rochester-area per capita incomes, however, grew less than St. Cloud's, rising only 1.6 percent in 2005.

Fargo-Moorhead appears to be having a boom, with 5.7 percent personal income growth and an October 2006 unemployment rate in Moorhead of 1.4 percent.

St. Cloud has lower per capita income than any of these other areas at this time, and it falls below the median of 361 metro areas nationwide. Part of the reason is industry mix. The results of the special questions in this quarter's survey favoring the proposed bioscience initiative may be because of a desire to bring higher-paying jobs to the St. Cloud area.

There are questions, though, about whether we would have the right mix of industry and workers to take advantage of a tax-incentive program. Area demographics indicate an aging work force. The share of the work force in Central Minnesota younger than 30 will decline in the next 10 years, according to estimates of the Minnesota State Demographic Center. Students educated locally are typically not staying in the area for employment after graduation.

**TABLE 3-
EMPLOYMENT
TRENDS**

	St. Cloud (Stearns and Benton)			13-county Twin Cities area			Minnesota		
	15-year trend growth rate	Oct. '05-Oct. '06 growth rate	Oct. '06 employment share	15-year trend growth rate	Oct. '05-Oct.'06 growth rate	Oct. '06 employment share	15-year trend growth rate	Oct. '05-Oct. '06 growth rate	Oct. '06 employment share
Total nonagricultural	2.0%	0.6%	100%	1.7%	2.0%	100%	1.7%	2.0%	100%
Total private	2.0%	0.7%	85.3%	1.7%	2.3%	86.0%	1.8%	2.4%	84.9%
Goods producing	2.0%	-1.1%	22.5%	0.9%	2.1%	16.6%	0.9%	0.8%	17.8%
Construction/natural resources	2.9%	-0.5%	5.2%	4.1%	7.1%	5.3%	3.1%	0.0	5.3%
Manufacturing	1.7%	-1.3%	17.3%	-0.2%	-0.1%	11.3%	0.1%	0.4%	12.5%
Service providing	1.9%	1.0%	77.5%	1.9%	2.0%	83.4%	1.9%	2.2%	82.2%
Trade/transportation/utilities	0.5%	0.5%	21.0%	1.2%	0.8%	18.9%	1.2%	0.8%	19.1%
Wholesale trade	2.5%	1.8%	4.5%	1.5%	1.8%	4.7%	1.6%	2.8%	4.8%
Retail trade	-0.2%	0.4%	13.5%	1.3%	0.4%	10.3%	1.2%	0.0	10.8%
Trans./warehouse/utilities	0.9%	-0.9%	2.9%	0.5%	0.9%	3.8%	0.8%	0.7%	3.5%
Information	1.6%	-0.6%	1.4%	0.2%	-4.6%	2.2%	0.8%	2.7%	2.1%
Financial activities	3.9%	2.7%	4.5%	2.3%	1.4%	8.0%	2.3%	2.5%	6.6%
Professional & business service	6.0%	4.3%	7.8%	2.3%	4.6%	14.4%	2.7%	5.2%	11.6%
Education & health	2.9%	1.0%	14.7%	2.9%	2.7%	12.6%	3.0%	3.3%	14.4%
Leisure & hospitality	2.7%	0.9%	9.0%	2.4%	5.2%	9.2%	2.0%	3.8%	9.0%
Other services (excluding govt.)	1.7%	2.0%	4.5%	1.4%	-0.3%	4.1%	1.6%	1.6%	4.3%
Government	1.1%	-0.4%	14.7%	1.7%	0.7%	14.0%	1.2%	-0.1%	15.1%
Federal government	-0.3%	1.3%	1.6%	0.0	-1.0%	1.2%	-0.3%	-1.3%	1.2%
State government	0.3%	-0.2%	4.4%	1.8%	0.2%	4.0%	0.8%	-0.7%	3.4%
Local government	0.0	-0.7%	8.7%	2.2%	1.1%	8.8%	1.5%	0.2%	10.5%

Note: Long-term trend growth rate is the compounded average employment growth rate in the specified period.

Source: Minnesota Department of Employment and Economic Development

unable to cross the line. If we maintained the growth pattern of the 1990s, we would have crossed 100,000 in late 2003. Recession, the closing of Fingerhut and the subsequent slowing of job growth delayed that milestone by three years.

The normal pattern would have this figure increase another 1,000 jobs in November as retail outlets add seasonal workers for the holiday season. A 3,000-person job decline would follow in January.

But our survey shows fewer firms than usual for this time of year expect to expand their payrolls, so it may be some time before we cross that line again.

The data in Table 4 show this point in another way. While employment in the area as measured by payrolls has grown 0.6 percent for the 12 months to October 2006, the number of workers living in the St. Cloud area has declined by 1 percent in the same period.

The two observations can be a result of sampling error in the survey, or they could

**TABLE 4-OTHER
ECONOMIC INDICATORS**

	2006	2005	Percent Change
St. Cloud MSA labor force October (Minnesota Department of Employment and Economic Development)	104,389	105,418	-1.0%
St. Cloud MSA civilian employment # October (Minnesota Department of Employment and Economic Development)	101,183	102,349	-1.1%
St. Cloud MSA unemployment rate* October (Minnesota Department of Employment and Economic Development)	3.1%	2.9%	NA
Minnesota unemployment rate* October (Minnesota Department of Employment and Economic Development)	3.3%	3.2%	NA
Minneapolis-St. Paul unemployment rate* October (Minnesota Department of Employment and Economic Development)	3.5%	3.2%	NA
St. Cloud area new unemployment insurance claims August-October average (Minnesota Department of Employment and Economic Development)	683.3	625.3	9.3%
St. Cloud Times help-wanted ad lineage August-October average, in inches	5,647.3	7,480.7	-24.5%
St. Cloud MSA residential building permit valuation in thousands, August-October average (U.S. Dept. of Commerce)	12,457.7	15,853.0	-21.4%
St. Cloud index of leading economic indicators October (St. Cloud State University)**	101.5	102.8	-1.3%

MSA = St. Cloud Metropolitan Statistical Area, composed of Stearns and Benton counties.

- The employment numbers here are based on household estimates, not the employer payroll estimate in Table 3.

* - Not seasonally adjusted

** - January-March 2001=100

NA - Not applicable

mean that more workers in St. Cloud are commuting from outside the area.

Area unemployment has risen locally, as it has statewide.

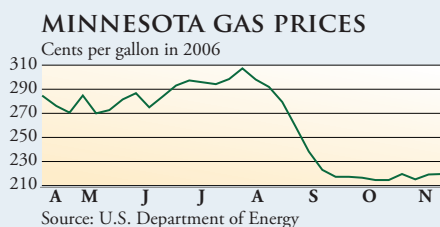
The number of building permits issued in the St. Cloud area fell 17 percent in the 12 months before September 2006. But not all of the decline has been a result of

THE FALL IN GAS PRICES THIS AUTUMN HELPED AREA WORKERS WHO ARE COMMUTING. Prices have fallen by more than a quarter since August, which could add \$15 to \$25 per week in discretionary income to someone commuting 500 miles per week.

local factors. Other communities have seen similar declines. Building permits dropped 23 percent in Rochester, 24 percent in Duluth, 22 percent in Minneapolis-St. Paul and 14 percent in Fargo-Moorhead.

Help-wanted lineage in the St. Cloud Times has fallen, and unemployment insurance claims have begun to rise this fall, giving further concern to the future of the local economy.

The fall in gas prices this autumn helped area workers who are commuting. Prices have fallen by more than a quarter since August, which could add \$15 to \$25 per week in discretionary income to someone commuting 500 miles per week. That boost to income may be holding up sales for area firms.



The rise in unemployment insurance claims and decline in help-wanted advertising has been a major drag on the St. Cloud Index of Leading Economic Indicators, more than canceling out the small increases in the other two indicator series. The index fell 1.29 percent in the past three months to October 2006, as seen in Table 5.

The leading indicator series has moved sideways through 2006, failing to give a clear signal whether there will be a recession in 2007. Different indicators have moved up and down in the period, though it is new claims for unemployment insurance that has provided most of the down-

TABLE 5-ELEMENTS OF ST. CLOUD INDEX OF LEI

Changes from July 2006 to October 2006	Contribution to LEI
New claims for unemployment insurance	-0.64%
Hours worked	0.16%
New business incorporations	0.01%
Help-wanted advertising in St. Cloud Times	-0.82%
Total	-1.29%

*Numbers may not add up due to rounding.

ward pressure for the year as a whole.

Our survey shows the environment for pricing goods and services has changed. It is relatively clear now that the Federal Reserve's actions in restraining price increases have been effective. Short-term interest rates have risen enough for the time being, and there is little evidence they will increase any time soon. It is more likely the Fed will move to decrease its interest rate target as inflation subsides, according to most forecasters.

Inflation expectations from the National Association of Business Economists forecast, issued Nov. 20, are for core consumer price index to rise 2.4 percent, as crude oil prices hold in the range of \$55 to \$60 a barrel. Short-term interest rates are forecasted to remain above long-term rates for the first half of next year as well.

A Nov. 13-15 Wall Street Journal survey of forecasters showed an expectation of real GDP growth of 2.3 percent in the current quarter and 2.5 percent for the first half of 2007. The business economists' association forecast concurs with that assessment, anticipating a gradual in-

crease to 3 percent growth in the second half of next year. This might be accompanied by a small increase in unemployment next year, but not a major change.

The signs, then, point to modest growth at best for the beginning of 2007.

The White House forecast, issued Nov. 21, included an expectation that payroll growth would average 129,000 jobs per month. This is well below its forecast of 170,000 jobs per month made six months earlier. Some of this will be because of continued good performance of productivity, with output per worker-hour projected to be better than 2 percent in 2007.

Good productivity controls inflation and provides additional goods, but in the short run, it also restrains job growth.

In that environment, it is difficult for us to see more than the current state of affairs in the local economy: Employment growth will be unspectacular; businesses will find price increases more difficult; housing will continue to lag; and households will continue to be able to spend just enough to keep local firms in enough revenue to not cause a major turning point in economic activity.

Labor market shortages have eased, indicating a rough equilibrium between new entrants and re-entrants on the one side and firm expansion plans on the other. The local situation looks a little more certain than three months ago, but uncertainty about national conditions still remains a factor for the local economy.

IN THE NEXT QBR Participating businesses can look for the next survey in February and the accompanying St. Cloud Area Quarterly Business Report in the April edition of ROI Central Minnesota. Area businesses that wish to participate in the quarterly survey can call the St. Cloud State University Center for Economic Education at (320) 308-2157.